

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature <i>Sharon L. Vargo</i>	Printed Name		License Number	

Village of Berrien Springs, Michigan

Financial Report
with Supplemental Information
June 30, 2006

Village of Berrien Springs, Michigan

Contents

Report Letter	I
Management's Discussion and Analysis	2-7
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9-10
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	11
Statement of Revenue, Expenditures, and Changes in Fund Balances	12
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Proprietary Funds:	
Statement of Net Assets	14
Statement of Revenue, Expenses, and Changes in Fund Net Assets	15
Statement of Cash Flows	16
Notes to Financial Statements	17-31
Required Supplemental Information	32
Budgetary Comparison Schedule - General Fund	33
Budgetary Comparison Schedule - Major Special Revenue Funds	34-35
Note to Required Supplemental Information	36



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Independent Auditor's Report

To the Village Council
Village of Berrien Springs, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Village of Berrien Springs, Michigan as of and for the year ended June 30, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Berrien Springs, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Village of Berrien Springs, Michigan as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

August 11, 2006



A worldwide association of independent accounting firms

Village of Berrien Springs, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the Village of Berrien Springs, Michigan's financial performance provides an overview of the Village's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the Village's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2006:

- State-shared revenue, the General Fund's second largest revenue source, was decreased again this year. The Village management reacted by continuing to keep expenses at a minimum where possible.
- The Village changed banking institutions during the prior year in order to earn more interest and pay fewer fees. Compared to fiscal 2005, the Village's investment income increased during fiscal 2006 by approximately \$43,000 or 64 percent.
- The Village continued its long-term investment in its wastewater treatment system. Subsequent to year end, the Village broke ground on the highly anticipated project. This project will be funded by a USDA Rural Development loan of \$5,738,000 and a grant of \$3,000,000.
- The Ferry Street project, which was funded by a Small Urban Grant of approximately \$450,000, was finalized during the year.
- The Downtown Revitalization Project is slated to begin during fiscal 2007. MDOT approved a Transportation Enhancement Grant award to the Village in the amount of \$343,680 for this project, for which total expenditures are estimated at \$826,000.
- The Village began the Highland Estates Improvements Project near the end of the fiscal year. Total expenditures for this project are projected to be approximately \$355,000.
- The Fisher Court Watermain Improvements Project construction contract was awarded to Northern Construction in the amount of \$166,945. The project is expected to begin during fiscal 2007.

Village of Berrien Springs, Michigan

Management's Discussion and Analysis (Continued)

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements by providing information about the Village's most significant funds.

Village of Berrien Springs, Michigan

Management's Discussion and Analysis (Continued)

The Village as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior two fiscal years:

	Governmental Activities			Business-type Activities			Total		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
Assets									
Current assets	\$ 3,370,332	\$ 2,782,554	\$ 2,415,719	\$ 577,753	\$ 692,118	\$ 780,964	\$ 3,948,085	\$ 3,474,672	\$ 3,196,683
Noncurrent assets	2,146,457	2,105,153	1,836,536	4,166,864	3,689,348	3,543,747	6,313,321	5,794,501	5,380,283
Total assets	5,516,789	4,887,707	4,252,255	4,744,617	4,381,466	4,324,711	10,261,406	9,269,173	8,576,966
Liabilities									
Current liabilities	73,236	52,648	51,895	438,442	377,097	528,674	511,678	429,745	580,569
Long-term liabilities	-	-	-	494,882	526,416	557,948	494,882	526,416	557,948
Total liabilities	73,236	52,648	51,895	933,324	903,513	1,086,622	1,006,560	956,161	1,138,517
Net Assets									
Invested in capital assets -									
Net of related debt	1,619,582	1,606,712	1,338,095	3,640,448	2,911,398	2,642,265	5,260,030	4,518,110	3,980,360
Restricted	1,063,471	845,421	757,603	59,321	239,394	267,056	1,122,792	1,084,815	1,024,659
Unrestricted	2,760,500	2,382,926	2,104,662	111,524	327,161	328,768	2,872,024	2,710,087	2,433,430
Total net assets	<u>\$ 5,443,553</u>	<u>\$ 4,835,059</u>	<u>\$ 4,200,360</u>	<u>\$ 3,811,293</u>	<u>\$ 3,477,953</u>	<u>\$ 3,238,089</u>	<u>\$ 9,254,846</u>	<u>\$ 8,313,012</u>	<u>\$ 7,438,449</u>

The Village's combined net assets increased 11 percent from a year ago - increasing from \$8,313,012 to \$9,254,846. As we look at the governmental activities separately from the business-type activities, we can see that governmental activities net assets increased 13 percent from \$4,835,059 to \$5,443,553, while business-type activities increased 10 percent from \$3,477,953 to \$3,811,293.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - increased by \$377,574 for the governmental activities. This represents an increase of approximately 16 percent. The current level of unrestricted net assets for our governmental activities stands at \$2,760,500. This is within the targeted range set by the Village during its last budget process.

Village of Berrien Springs, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes in the net assets during the current year and as compared to the prior two fiscal years:

	Governmental Activities			Business-type Activities			Total		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
Revenue									
Program revenue:									
Charges for services	\$ 327,143	\$ 188,280	\$ 206,289	\$ 1,029,112	\$ 995,834	\$ 962,873	\$ 1,356,255	\$ 1,184,114	\$ 1,169,162
Operating grants and contributions	139,242	131,585	222,217	-	-	-	139,242	131,585	222,217
Capital grants and contributions	-	318,509	-	-	-	-	-	318,509	-
General revenue:									
Property taxes	558,249	540,845	583,327	-	-	-	558,249	540,845	583,327
State-shared revenue	180,784	182,397	191,842	-	-	-	180,784	182,397	191,842
Unrestricted investment earnings	79,070	53,068	18,421	30,799	13,932	13,723	109,869	67,000	32,144
Miscellaneous	66,866	72,908	4,580	-	-	-	66,866	72,908	4,580
Total revenue	1,351,354	1,487,592	1,226,676	1,059,911	1,009,766	976,596	2,411,265	2,497,358	2,203,272
Program Expenses									
General government	247,569	164,967	178,452	-	-	-	247,569	164,967	178,452
Public safety	154,288	105,446	177,556	-	-	-	154,288	105,446	177,556
Public works	189,049	413,684	298,389	-	-	-	189,049	413,684	298,389
Recreation and culture	151,954	168,796	176,091	-	-	-	151,954	168,796	176,091
Water and sewer	-	-	-	726,571	769,902	729,840	726,571	769,902	729,840
Total program expenses	742,860	852,893	830,488	726,571	769,902	729,840	1,469,431	1,622,795	1,560,328
Change in Net Assets	\$ 608,494	\$ 634,699	\$ 396,188	\$ 333,340	\$ 239,864	\$ 246,756	\$ 941,834	\$ 874,563	\$ 642,944

Village of Berrien Springs, Michigan

Management's Discussion and Analysis (Continued)

During the past fiscal year, governmental activities revenues decreased from \$1,487,592 to \$1,351,354 or approximately 9 percent, while governmental program expenses decreased approximately 13 percent. This relates to the Ferry Street Road Improvements Project, which resulted in approximately \$320,000 of grant revenue for the governmental activities in prior year.

Business-type activities revenues increased approximately 5 percent, while expenses also decreased by approximately 5 percent. The most significant revenue increase was the increase in investment income, which related to the Village's change in financial institutions and the rising interest rate environment. The decrease in expenditures relates to significant legal expenditures during the prior year. These legal fees were incurred in relation to two short-term notes that were issued to the Village in 2004, one of which was repaid and the other reissued during 2005.

Governmental Activities

Property taxes increased slightly due to valuation increases.

Business-type Activities

The Village's business-type activities consist of the Water and Sewer Fund. We provide water and sewer to residents through Village-owned and operated wells and sewage treatment plant.

Water Operating Fund

A water and sewer rate study was completed in January 2003. Using a proposed cost allocation between the customer, commodity, and demand charges, an annual increase of approximately 6.0 percent per year for five years was instituted.

Sewer Fund

The water and sewer rate study completed in January 2003 recommended an average of 8 percent to 10 percent annual increase in sewer rates over a five-year time span, which was approved. Annual projected surpluses would build back up the Sewer Fund's cash reserves, which have been depleted.

Village of Berrien Springs, Michigan

Management's Discussion and Analysis (Continued)

The Village's Funds

Our analysis of the Village's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Village as a whole. The Village Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Village's major funds for 2006 include the General Fund, the Major and Local Streets Funds, and the Waste Water and Water Operating Funds.

Budgetary Highlights

Over the course of the year, the Village amended the budget to take into account events during the year. The Village Council made amendments to the budgets of the General, Major Streets, and Local Streets Funds once during the year as was necessary. Full budget to actual statements for these funds are included as pages 33 through 35 of this report.

Capital Asset and Debt Administration

During the year, the Village repaid a short-term note to the County for \$220,000 that was issued in fiscal 2005 to fund the Ferry Street sewer improvements. This project, including the related street and water system improvements, was substantially completed and capitalized during fiscal 2005. The related 2005 capital additions were as follows: sewer system - \$132,384, water system - \$165,267, and street improvements - \$409,393.

Economic Factors and Next Year's Budgets and Rates

The Village's fiscal 2007 budget anticipates additional cuts in state-shared revenue. The Village has received a CDBG grant of approximately \$340,000 for fiscal 2007. The Village will match this grant at an additional expense of approximately \$280,000. In addition, the Village anticipates the receipt of \$3,000,000 of money from a Rural Development Grant for the Waste Water Treatment Plant project during fiscal 2007. The Village anticipates several other ongoing projects, as discussed on the first page of this management's discussion and analysis.

The Village increased water and sewer rates during fiscal 2006 and continues to watch water and sewer revenue and expense trends for possible additional increases in the future.

Contacting the Village's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

Village of Berrien Springs, Michigan

Statement of Net Assets June 30, 2006

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents (Note 3)	\$ 1,787,159	\$ 628,603	\$ 2,415,762
Investments (Note 3)	1,146,817	-	1,146,817
Customer accounts receivable - Net	17,474	254,640	272,114
Due from other governmental units	44,447	-	44,447
Internal balances	374,435	(374,435)	-
Prepaid costs and other assets	-	9,624	9,624
Restricted assets - Debt service	-	59,321	59,321
Capital assets - Net (Note 4):			
Assets subject to depreciation	1,258,801	2,513,717	3,772,518
Assets not subject to depreciation	360,781	1,653,147	2,013,928
Investment in joint venture (Note 1)	526,875	-	526,875
Total assets	5,516,789	4,744,617	10,261,406
Liabilities			
Accounts payable	57,835	299,200	357,035
Accrued and other liabilities	8,951	107,708	116,659
Accrued employee benefits -			
Due within one year (Note 6)	6,450	-	6,450
Noncurrent liabilities (Note 6):			
Due within one year	-	31,534	31,534
Due in more than one year	-	494,882	494,882
Total liabilities	73,236	933,324	1,006,560
Net Assets			
Invested in capital assets - Net of related debt	1,619,582	3,640,448	5,260,030
Restricted for streets and highways	1,063,471	-	1,063,471
Restricted for debt service	-	59,321	59,321
Unrestricted	2,760,500	111,524	2,872,024
Total net assets	<u>\$ 5,443,553</u>	<u>\$ 3,811,293</u>	<u>\$ 9,254,846</u>

Village of Berrien Springs, Michigan

		Program Revenues	
		Charges for	Operating Grants and Contributions
	Expenses	Services	
Functions/Programs			
Governmental activities:			
General government	\$ 247,569	\$ 100,000	\$ -
Public safety	154,288	12,663	-
Public works	189,049	84,167	139,242
Recreation and culture	151,954	130,313	-
Total governmental activities	742,860	327,143	139,242
Business-type activities - Water and sewer	726,571	1,029,112	-
Total primary government	<u><u>\$ 1,469,431</u></u>	<u><u>\$ 1,356,255</u></u>	<u><u>\$ 139,242</u></u>
General revenues:			
Property taxes			
State-shared revenues			
Unrestricted investment earnings			
Miscellaneous			
Total general revenues			
Change in Net Assets			
Net Assets - Beginning of year			
Net Assets - End of year			

Statement of Activities
Year Ended June 30, 2006

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (147,569)	\$ -	\$ (147,569)
(141,625)	-	(141,625)
34,360	-	34,360
<u>(21,641)</u>	<u>-</u>	<u>(21,641)</u>
(276,475)	-	(276,475)
<u>-</u>	<u>302,541</u>	<u>302,541</u>
(276,475)	302,541	26,066
558,249	-	558,249
180,784	-	180,784
79,070	30,799	109,869
<u>66,866</u>	<u>-</u>	<u>66,866</u>
<u>884,969</u>	<u>30,799</u>	<u>915,768</u>
608,494	333,340	941,834
<u>4,835,059</u>	<u>3,477,953</u>	<u>8,313,012</u>
<u>\$ 5,443,553</u>	<u>\$ 3,811,293</u>	<u>\$ 9,254,846</u>

Village of Berrien Springs, Michigan

Governmental Funds Balance Sheet June 30, 2006

	General	Major Streets	Local Streets	Total Governmental Funds
Assets				
Cash and investments	\$ 1,833,542	\$ 508,058	\$ 592,376	\$ 2,933,976
Receivables - Net	17,474	-	-	17,474
Due from other governmental units	23,919	14,031	6,497	44,447
Due from other funds	374,435	-	-	374,435
Total assets	<u>\$ 2,249,370</u>	<u>\$ 522,089</u>	<u>\$ 598,873</u>	<u>\$ 3,370,332</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 9,295	\$ -	\$ 48,540	\$ 57,835
Accrued and other liabilities	-	-	8,951	8,951
Total liabilities	9,295	-	57,491	66,786
Fund Balances - Unreserved, reported in				
General Fund	2,090,075	-	-	2,090,075
Special Revenue Funds	-	522,089	541,382	1,063,471
Designated for future police expenditures	150,000	-	-	150,000
Total fund balances	<u>2,240,075</u>	<u>522,089</u>	<u>541,382</u>	<u>3,303,546</u>
Total liabilities and fund balances	<u>\$ 2,249,370</u>	<u>\$ 522,089</u>	<u>\$ 598,873</u>	
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources and are not reported in the funds				1,619,582
Investment in joint venture				526,875
Long-term liabilities are not due and payable in the current period and are not reported in funds				(6,450)
Net assets of governmental activities				<u>\$ 5,443,553</u>

Village of Berrien Springs, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2006

	General	Major Streets	Local Streets	Total Governmental Funds
Revenue				
Property taxes	\$ 419,547	\$ -	\$ 138,702	\$ 558,249
State-shared revenues and grants	180,784	92,798	46,444	320,026
Licenses and permits	12,663	-	-	12,663
Charges for services	294,684	-	-	294,684
Fines and forfeitures	1,278	-	-	1,278
Interest and rentals	45,842	20,749	13,123	79,714
Other	93,917	-	-	93,917
Total revenue	1,048,715	113,547	198,269	1,360,531
Expenditures				
General government	258,236	-	-	258,236
Public safety	170,615	-	-	170,615
Public works	17,888	63,368	163,628	244,884
Recreation and culture	119,095	-	-	119,095
Total expenditures	565,834	63,368	163,628	792,830
Excess of Revenue Over Expenditures	482,881	50,179	34,641	567,701
Other Financing Sources (Uses)				
Transfers in	-	53,292	79,938	133,230
Transfers out	(133,230)	-	-	(133,230)
Total other financing sources (uses)	(133,230)	53,292	79,938	-
Net Change in Fund Balances	349,651	103,471	114,579	567,701
Fund Balances - Beginning of year	1,890,424	418,618	426,803	2,735,845
Fund Balances - End of year	<u>\$ 2,240,075</u>	<u>\$ 522,089</u>	<u>\$ 541,382</u>	<u>\$ 3,303,546</u>

Village of Berrien Springs, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds	\$ 567,701
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures;
in the statement of activities, these costs are allocated
over their estimated useful lives as depreciation

Current year capital additions	136,202
Current year allocation of depreciation	(123,105)
Current year net capital disposals	(227)

Increase in investment in joint venture	28,434
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Increase in accumulated employee vacation pay is recorded when earned in the statement of activities	<u>(511)</u>
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Change in Net Assets of Governmental Activities	<u>\$ 608,494</u>
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Village of Berrien Springs, Michigan

Proprietary Funds Statement of Net Assets June 30, 2006

	Waste Water	Water Operating	Total Enterprise Funds
Assets			
Current assets:			
Cash and cash equivalents	\$ -	\$ 628,603	\$ 628,603
Receivables - Net	139,948	114,692	254,640
Prepaid costs and other assets	-	9,624	9,624
Total current assets	139,948	752,919	892,867
Noncurrent assets:			
Restricted assets	-	59,321	59,321
Capital assets	2,666,725	1,500,139	4,166,864
Total noncurrent assets	2,666,725	1,559,460	4,226,185
Total assets	2,806,673	2,312,379	5,119,052
Liabilities			
Current liabilities:			
Accounts payable	247,727	51,473	299,200
Accrued and other liabilities	7,364	5,715	13,079
Customer deposits payable	-	94,629	94,629
Due to other funds	374,435	-	374,435
Current portion of long-term debt	5,767	25,767	31,534
Total current liabilities	635,293	177,584	812,877
Noncurrent liabilities - Long-term debt - Net of current portion	124,941	369,941	494,882
Total liabilities	760,234	547,525	1,307,759
Net Assets			
Investment in capital assets - Net of related debt	2,536,017	1,104,431	3,640,448
Restricted - Debt Service	-	59,321	59,321
Unrestricted	(489,578)	601,102	111,524
Total net assets	<u>\$ 2,046,439</u>	<u>\$ 1,764,854</u>	<u>\$ 3,811,293</u>

Village of Berrien Springs, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Fund Net Assets Year Ended June 30, 2006

	Waste Water	Water Operating	Total Enterprise Funds
Operating Revenue			
Sale of water	\$ -	\$ 460,082	\$ 460,082
Sewage disposal charges	527,224	-	527,224
Hydrant rental	-	15,000	15,000
Interest and penalty charges	5,137	6,070	11,207
Other charges for services	5,263	10,336	15,599
Total operating revenue	537,624	491,488	1,029,112
Operating Expenses			
Salaries	105,868	83,426	189,294
Fringe benefits	40,226	27,800	68,026
Utilities	24,091	4,811	28,902
Materials, supplies, and freight	25,709	32,781	58,490
Contractual services	4,226	8,448	12,674
Insurance	8,433	5,569	14,002
Repairs and maintenance	19,041	14,934	33,975
Depreciation	70,756	48,604	119,360
Administrative fees	50,000	50,000	100,000
Other	28,331	36,985	65,316
Total operating expenses	376,681	313,358	690,039
Operating Income	160,943	178,130	339,073
Nonoperating Revenue (Expense)			
Investment income	11,622	19,177	30,799
Interest expense	(13,898)	(22,634)	(36,532)
Total nonoperating expense	(2,276)	(3,457)	(5,733)
Change in Net Assets	158,667	174,673	333,340
Net Assets - Beginning of year	1,887,772	1,590,181	3,477,953
Net Assets - End of year	<u>\$ 2,046,439</u>	<u>\$ 1,764,854</u>	<u>\$ 3,811,293</u>

Village of Berrien Springs, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2006

	Waste Water	Water Operating	Total Enterprise Funds
Cash Flows from Operating Activities			
Receipts from customers	\$ 525,253	\$ 493,270	\$ 1,018,523
Payments to suppliers	(168,795)	(153,726)	(322,521)
Payments to employees	(146,094)	(111,226)	(257,320)
Internal activity - Receipts from other funds	113,879	-	113,879
Net cash provided by operating activities	324,243	228,318	552,561
Cash Flows from Capital and Related Financing Activities			
Purchase of capital assets	(277,920)	(27,423)	(305,343)
Principal and interest paid on capital debt	(239,665)	(48,401)	(288,066)
Net cash used in capital and related financing activities	(517,585)	(75,824)	(593,409)
Cash Flows from Investing Activities - Interest received	11,622	19,177	30,799
Net Increase (Decrease) in Cash and Cash Equivalents	(181,720)	171,671	(10,049)
Cash and Cash Equivalents - Beginning of year	181,720	516,253	697,973
Cash and Cash Equivalents - End of year	<u>\$ -</u>	<u>\$ 687,924</u>	<u>\$ 687,924</u>
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and investments	\$ -	\$ 628,603	\$ 628,603
Restricted cash	-	59,321	59,321
Total cash and cash equivalents	<u>\$ -</u>	<u>\$ 687,924</u>	<u>\$ 687,924</u>
Reconciliation of Operating Income to Net Cash from Operating Activities			
Operating income	\$ 160,943	\$ 178,130	\$ 339,073
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation	70,756	48,604	119,360
Changes in assets and liabilities:			
Receivables	(12,371)	2,808	(9,563)
Accounts payable	722	(198)	524
Accrued and other liabilities	(9,686)	-	(9,686)
Deposits payable	-	(1,026)	(1,026)
Due to other funds	113,879	-	113,879
Net cash provided by operating activities	<u>\$ 324,243</u>	<u>\$ 228,318</u>	<u>\$ 552,561</u>

Noncash Activities - During the year, there were no significant noncash operating, capital, financing, or investing activities.

Village of Berrien Springs, Michigan

Notes to Financial Statements June 30, 2006

Note I - Summary of Significant Accounting Policies

The accounting policies of the Village of Berrien Springs, Michigan (the "Village") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village of Berrien Springs, Michigan:

Reporting Entity

The Village of Berrien Springs, Michigan is governed by an elected seven-member council. In accordance with accounting principles generally accepted in the United States of America, there are no component units to be included in these financial statements.

Jointly Governed Organizations

The fire department, not a legally separate entity, of the Village is jointly operated with Oronoko Township (the "Township"). All fire expenditures are shared between the two units. The Village's share of capital assets is included in the governmental activities capital assets on the government-wide statement of net assets.

The Village, along with Oronoko Township, is a member of the Berrien Springs - Oronoko Township Police Department. Upon dissolution of the police department, the net assets will be shared on a pro rata basis as follows: 50 percent to the Village of Berrien Springs and 50 percent to Oronoko Charter Township. The police department is governed by an administrative board of five members consisting of three members from the Township and two members from the Village. The Village's share of capital assets is included in the governmental activities capital assets on the government-wide statement of net assets. The Village's equity interest in the police department at December 31, 2005 (the police department's year end) is \$526,875 and is included on the government-wide statement of net assets as investment in joint venture. Complete financial statements for the police department can be obtained from the police department administrative offices at 4583 Snow Road, Berrien Springs, MI 49103. The Village does not anticipate any additional benefit or burden related to its investment in this entity.

Village of Berrien Springs, Michigan

Notes to Financial Statements June 30, 2006

Note I - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Village of Berrien Springs, Michigan

Notes to Financial Statements June 30, 2006

Note I - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, if applicable, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Village reports the following major governmental funds:

General Fund - The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Streets Fund - The Major Streets Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

Local Streets Fund - The Local Streets Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on local streets.

The Village reports the following major proprietary funds:

Waste Water Fund - The Waste Water Fund accounts for the activities of the sewage collection system.

Water Operating Fund - The Water Operating Fund accounts for the activities of the water distribution system.

Village of Berrien Springs, Michigan

Notes to Financial Statements June 30, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Village has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Village's water/waste water function and various other functions of the Village. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Waste Water Funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on September 16, at which time penalties and interest are assessed.

Village of Berrien Springs, Michigan

Notes to Financial Statements June 30, 2006

Note I - Summary of Significant Accounting Policies (Continued)

The 2005 taxable valuation of the Village totaled approximately \$39.6 million, on which taxes levied consisted of 10.4453 mills for operating purposes and 3.4539 mills for street repair and maintenance. This resulted in approximately \$415,000 for operating and \$137,000 for street repair and maintenance. These amounts are recognized in the respective General and Special Revenue Funds financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General Fund, Special Revenue Fund, and Enterprise Funds are generally allocated to each fund using a weighted average.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - The revenue bonds of the Enterprise Funds require amounts to be set aside for debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Village of Berrien Springs, Michigan

Notes to Financial Statements June 30, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	7 to 25 years
Water and sewer distribution systems	6 to 40 years
Buildings and building improvements	10 to 40 years
Vehicles	5 to 15 years
Office furnishings, machinery, and equipment	5 to 10 years

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Village of Berrien Springs, Michigan

Notes to Financial Statements June 30, 2006

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The Village oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Village charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Shortfall at July 1, 2005	\$ (47,777)
Current year building permit revenue	12,500
Related expenses - Direct costs	<u>(13,746)</u>
Shortfall at June 30, 2006	<u>\$ (49,023)</u>

Deficit Net Assets - While the Village has net assets in the Waste Water Fund, it has an unrestricted net asset deficit at June 30, 2006.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Village has designated two financial institutions for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in instruments allowed by Public Act 20. The Village's deposits and investment policies are in accordance with statutory authority.

Village of Berrien Springs, Michigan

Notes to Financial Statements June 30, 2006

Note 3 - Deposits and Investments (Continued)

The Village's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a financial institution failure, the Village's deposits may not be returned to it. The Village does not have a deposit policy for custodial credit risk. At year end, the Village had \$2,587,649 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Village evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Village does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Village's name:

Type of Investment	Carrying Value	How Held
Federal Home Loan Bank bonds	\$ 421,813	Counterparty

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Village's investment policy does not restrict investment maturities. At year end, the average maturities of investments are as follows:

Investment	Carrying Value	Investment Maturity
Federal Home Loan Bank bonds	\$ 421,813	1-5 years

Village of Berrien Springs, Michigan

Notes to Financial Statements June 30, 2006

Note 3 - Deposits and Investments (Continued)

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Village has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than U.S. government) are as follows:

Investment	Carrying Value	Rating	Organization
Federal Home Loan Bank bonds	\$ 421,813	Aaa	Moody's
Fifth Third Instl Govt Money Market Fund	425,000	Aaa	Moody's

Concentration of Credit Risk - The Village places no limit on the amount the Village may invest in any one issuer. More than 5 percent of the Village's investments are in Federal Home Loan Bank bonds; these investments are 50 percent of the Village's total investments.

Village of Berrien Springs, Michigan

Notes to Financial Statements June 30, 2006

Note 4 - Capital Assets

Capital asset activity of the Village's governmental and business-type activities was as follows:

Governmental Activities	Balance July 1, 2005	Additions	Disposals and Adjustments	Balance June 30, 2006
Capital assets not being depreciated:				
Land	\$ 288,641	\$ -	\$ -	\$ 288,641
Construction in progress	-	72,140	-	72,140
Subtotal	288,641	72,140	-	360,781
Capital assets being depreciated:				
Roads and sidewalks	506,140	-	-	506,140
Buildings and improvements	677,793	38,981	-	716,774
Vehicles	334,315	8,882	30,545	312,652
Office furnishings and equipment	658,267	16,199	5,005	669,461
Subtotal	2,176,515	64,062	35,550	2,205,027
Accumulated depreciation:				
Roads and sidewalks	83,407	18,814	-	102,221
Buildings and improvements	266,058	18,585	-	284,643
Vehicles	156,972	22,013	30,545	148,440
Office furnishings and equipment	352,007	63,693	4,778	410,922
Subtotal	858,444	123,105	35,323	946,226
Net capital assets being depreciated	1,318,071	(59,043)	227	1,258,801
Net capital assets	<u>\$ 1,606,712</u>	<u>\$ 13,097</u>	<u>\$ 227</u>	<u>\$ 1,619,582</u>

Village of Berrien Springs, Michigan

Notes to Financial Statements June 30, 2006

Note 4 - Capital Assets (Continued)

	Balance July 1, 2005	Additions	Balance June 30, 2006
Business-type Activities			
Capital assets not being depreciated:			
Land	\$ 299,830	\$ -	\$ 299,830
Construction in progress	792,123	561,194	1,353,317
Subtotal	1,091,953	561,194	1,653,147
Capital assets being depreciated:			
Water and sewer distribution systems	4,353,470	-	4,353,470
Buildings and building improvements	93,654	-	93,654
Vehicles	99,994	35,682	135,676
Machinery and equipment	238,796	-	238,796
Subtotal	4,785,914	35,682	4,821,596
Accumulated depreciation:			
Water and sewer distribution systems	1,890,985	92,646	1,983,631
Buildings and building improvements	54,088	3,610	57,698
Vehicles	99,994	7,929	107,923
Machinery and equipment	143,452	15,175	158,627
Subtotal	2,188,519	119,360	2,307,879
Net capital assets being depreciated	2,597,395	(83,678)	2,513,717
Net capital assets	<u>\$ 3,689,348</u>	<u>\$ 477,516</u>	<u>\$ 4,166,864</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 27,803
Public safety	30,164
Public works	32,279
Recreation and culture	32,859
Total governmental activities	<u>\$ 123,105</u>
Business-type activities:	
Water	\$ 48,604
Sewer	70,756
Total business-type activities	<u>\$ 119,360</u>

Village of Berrien Springs, Michigan

Notes to Financial Statements June 30, 2006

Note 4 - Capital Assets (Continued)

Construction Commitments - The Village has ongoing projects at year end. The commitments with contractors and engineers are as follows:

Project	Spent to Date	Remaining Commitment
Waste Water Treatment Plant Construction	\$ -	\$ 8,441,500
Downtown Revitalization Engineering	43,285	82,715
Highland Estates Engineering	32,060	11,940
Highland Estates Construction	71,115	239,997
Fisher Court Watermain and Sanitary System Improvements	-	166,945

Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Waste Water Fund	\$ 374,435

This balance results from the Waste Water Fund overdrawing its share of cash from the Village's pooled cash arrangement.

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Major Streets Fund	\$ 53,292
General Fund	Local Streets Fund	79,938
Total		<u>\$ 133,230</u>

The transfers from the General Fund to the Major and Local Street Funds represent the use of unrestricted resources to finance those programs, in accordance with budgetary authorizations.

Village of Berrien Springs, Michigan

Notes to Financial Statements June 30, 2006

Note 6 - Long-term Debt

The Village issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Village. County contractual agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities -						
Accrued employee benefits	-	\$ 5,939	\$ 511	\$ -	\$ 6,450	\$ 6,450
Business-type Activities						
General obligation bonds - Water and sewer general obligation bonds:						
Amount of issue - \$330,614	4.70% -					
Maturing through 2020	5.65%	\$ 272,950	\$ -	\$ 11,534	\$ 261,416	\$ 11,534
County Contractual Obligations -						
Ferry Street Sewer note agreement:						
Amount of issue - \$220,000						
Maturing through 2006	2.79%	220,000	-	220,000	-	-
Revenue bonds - Water revenue bonds:						
Amount of issue - \$415,000	4.70% -					
Maturing through 2016	5.50%	285,000	-	20,000	265,000	20,000
Total business-type activities		\$ 777,950	\$ -	\$ 251,534	\$ 526,416	\$ 31,534

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Business-type Activities		
	Principal	Interest	Total
2007	\$ 31,534	\$ 28,356	\$ 59,890
2008	35,378	26,772	62,150
2009	40,378	24,960	65,338
2010	40,378	22,859	63,237
2011	40,378	20,725	61,103
2012-2016	242,266	67,974	310,240
2017-2020	96,104	13,784	109,888
Total	\$ 526,416	\$ 205,430	\$ 731,846

Village of Berrien Springs, Michigan

Notes to Financial Statements June 30, 2006

Note 7 - Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Village participates in the Michigan Municipal League risk pool for claims relating to all risks.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 8 - Pension Plan

The Village participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the Village. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

The obligation to contribute to and maintain the system for police and fire employees was established by negotiation with the Village's competitive bargaining unit and requires a contribution from the employees of .6 percent of gross wages. The obligation for general employees was adopted by the Village's council and requires a contribution of zero percent of gross wages.

For the year ended June 30, 2006, the Village's annual pension cost of \$26,198 for the plan was equal to the Village's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return, (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation, (c) additional projected salary increases of 0.0 percent to 8.40 percent per year, depending on age, attributable to seniority/merit, and (d) no increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll.

Village of Berrien Springs, Michigan

Notes to Financial Statements June 30, 2006

Note 8 - Pension Plan (Continued)

	Fiscal Year Ended June 30		
	2004	2005	2006
Annual pension costs (APC)	\$ -	\$ 21,182	\$ 26,198
Percentage of APC contributed	-	100	100
Net pension obligation	-	-	-
	Actuarial Valuation as of December 31		
	2003	2004	2005
Actuarial value of assets	\$ 2,042,915	\$ 2,148,760	\$ 2,261,624
Actuarial Accrued Liability (AAL)			
(entry age)	\$ 1,845,133	\$ 1,907,674	\$ 2,229,583
Overfunded AAL (UAAL)	\$ 197,782	\$ 241,086	\$ 32,041
Funded ratio	110.7%	112.6%	101.4%
Covered payroll	\$ 677,448	\$ 716,458	\$ 747,731
UAAL as a percentage of covered payroll	(29.20%)	(33.65%)	(4.28%)

Note 9 - Subsequent Events

Subsequent to year end, the Village Council approved a contract increase for the Waste Water Treatment Plant engineering services in the amount of approximately \$273,000.

Required Supplemental Information

Village of Berrien Springs, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 384,190	\$ 384,190	\$ 419,547	\$ 35,357
State sources	190,550	190,550	180,784	(9,766)
Licenses and permits	2,189	2,189	12,663	10,474
Charges for services	275,110	292,610	294,684	2,074
Fines and forfeitures	1,030	1,030	1,278	248
Interest and rentals	13,090	13,090	45,842	32,752
Other	91,299	94,414	93,917	(497)
Total revenue	957,458	978,073	1,048,715	70,642
Expenditures				
General government:				
Village council	86,572	92,554	81,081	11,473
Village president	8,703	7,652	5,859	1,793
Village clerk	50,665	49,316	44,096	5,220
Elections	1,575	250	-	250
Village treasurer	9,330	9,730	9,266	464
Administration	86,487	84,222	59,608	24,614
Village hall and grounds	36,975	22,235	19,345	2,890
Public safety:				
Building inspection/zoning administration	14,540	12,740	13,746	(1,006)
Ordinance enforcement	-	19,535	5,193	14,342
Public works	27,716	27,030	17,888	9,142
Recreation and culture:				
Shamrock Park	127,059	131,293	115,292	16,001
Grove, Wolf's Prairie, and Memorial Parks	6,180	4,680	3,803	877
Other:				
Community services	286,152	257,953	151,676	106,277
Capital improvements	15,000	46,000	38,981	7,019
Transfers to other funds	115,000	115,000	133,230	(18,230)
Total expenditures	871,954	880,190	699,064	181,126
Excess of Revenue Over Expenditures	85,504	97,883	349,651	251,768
Fund Balance - Beginning of year	1,890,424	1,890,424	1,890,424	-
Fund Balance - End of year	<u>\$ 1,975,928</u>	<u>\$ 1,988,307</u>	<u>\$ 2,240,075</u>	<u>\$ 251,768</u>

Village of Berrien Springs, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Street Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State sources	\$ 89,435	\$ 89,435	\$ 92,798	\$ 3,363
Interest income	-	19,394	20,749	1,355
Other	-	5,445	-	(5,445)
Transfer from other funds	53,416	53,416	53,292	(124)
Total revenue	142,851	167,690	166,839	(851)
Expenditures				
Routine street maintenance	98,205	60,032	46,138	13,894
Tree/Shrub maintenance	23,450	5,275	4,459	816
Traffic services	2,369	4,936	4,586	350
Winter maintenance	9,556	2,300	2,314	(14)
Administration	4,145	4,190	4,343	(153)
Drainage	-	1,610	1,528	82
Total expenditures	137,725	78,343	63,368	14,975
Excess of Revenue Over Expenditures	5,126	89,347	103,471	14,124
Fund Balance - Beginning of year	418,618	418,618	418,618	-
Fund Balance - End of year	<u>\$ 423,744</u>	<u>\$ 507,965</u>	<u>\$ 522,089</u>	<u>\$ 14,124</u>

Village of Berrien Springs, Michigan

Required Supplemental Information Budgetary Comparison Schedule (Continued) Local Street Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 132,355	\$ 132,355	\$ 138,702	\$ 6,347
State sources	42,024	42,024	46,444	4,420
Interest income	-	12,257	13,123	866
Other	-	3,693	-	(3,693)
Transfer from other funds	80,124	80,124	79,938	(186)
Total revenue	254,503	270,453	278,207	7,754
Expenditures				
Routine street maintenance	191,659	164,031	140,199	23,832
Tree/Shrub maintenance	4,002	6,270	6,392	(122)
Traffic services	2,178	6,381	5,232	1,149
Winter maintenance	7,288	2,878	3,052	(174)
Administration	6,252	6,502	6,754	(252)
Drainage	1,122	2,160	1,999	161
Total expenditures	212,501	188,222	163,628	24,594
Excess of Revenue Over Expenditures	42,002	82,231	114,579	32,348
Fund Balance - Beginning of year	426,803	426,803	426,803	-
Fund Balance - End of year	<u>\$ 468,805</u>	<u>\$ 509,034</u>	<u>\$ 541,382</u>	<u>\$ 32,348</u>

Village of Berrien Springs, Michigan

Note to Required Supplemental Information June 30, 2006

Note - Budgetary Information

Annual budgets are prepared by the finance committee on a basis consistent with generally accepted accounting principles, except that the Village budgets operating transfers as revenues/expenditures instead of "other financing sources/uses." Budgets are adopted for the General Fund and all Special Revenue Funds by the Village Council. Subsequent amendments are approved by the Village Council. The budget was amended once during the year in a legally permissible manner.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds - The Village had one significant expenditure budget variance for the year ended June 30, 2006 as follows:

	<u>Budget</u>	<u>Actual</u>
General Fund - Transfers to other funds	\$ <u>115,000</u>	\$ <u>133,230</u>

To the Village Council
Village of Berrien Springs
Berrien Springs, Michigan 49103

In planning and performing our audit of the financial statements of Village of Berrien Springs for the year ended June 30, 2006, we considered the Village's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Controls Over Cash Disbursements

It is our understanding that the individual that maintains the general ledger has signature authority on the Village general operating checking account. This individual also has access to the blank check stock and the signature stamp of another individual with authorization to sign on Village checks. Therefore, the individual has opportunity to override the dual signature control for check authorization. We strongly recommend that compensating controls be implemented, such as removing access to the signature stamp and/or removing the individual that maintains the general ledger from the list of authorized signatories.

Bank Reconciliation Discrepancy (Repeated from 2005)

During our testing of the June 30, 2006 bank reconciliation, we noted that the "book balance" from the computer-generated bank reconciliation did not agree to the total general ledger balances of several accounts that are included in the reconciliation. We determined that the difference was due to amounts being treated as interfund transfers although they were actually reallocations to increase the Police and Fire designated cash within the General Fund.

Bank Reconciliation Discrepancy (Repeated from 2005) (Continued)

In the 2005 letter of recommendations, we recommended changing the bank reconciliation process to include an independent review of the reconciliation. During the fiscal 2006 audit, we noted that the Village has implemented a secondary review of the process, which also includes a review of the bank statement. We commend the Village personnel for spending the time and effort to add this additional step in order to increase the integrity of the reconciliation. To further strengthen the process, we recommend that the Village include a comparison of the "book balance" from the bank reconciliation to the general ledger. This additional procedure will strengthen the integrity of the bank reconciliation process, and assist with timely identification of mispostings within the general ledger. We have provided Village personnel with specific guidance related to our recommendation and it is our understanding that this additional procedure will be implemented during the new fiscal year.

Controls Over Cash Receipts at Remote Locations

Significant cash receipts are collected at Shamrock Park throughout the busy season. Through our discussions with park personnel, we understand that there is no procedure in place to reconcile discrepancies between the register record of receipts and actual collections. This is a weakness in internal control and should be corrected. If the Village Council would like additional, more detailed testing procedures performed specific to the park internal controls to provide suggested improvements, we would be happy to discuss an agreed-upon procedures engagement at your convenience.

Financial Overview

During the year ended June 30, 2006, the Village's overall financial condition continued to improve, with each fund experiencing a net increase for the year. Approximate fund balances/retained earnings as of June 30, 2006 are as follows: General Fund - \$2,240,000, Major Streets - \$522,000, Local Streets - \$541,000, Water Fund - \$1,765,000, and Waste Water Fund - \$2,046,000. In the General Fund, Major Street Fund, and Local Street Fund, excess revenue over expenditures was approximately \$349,000, \$103,000, and \$115,000, respectively. The Water Operating Fund and Waste Water Fund experienced positive changes in net assets of approximately \$175,000 and \$159,000, respectively. We compliment the Village Council on their sound budgeting practices and planning processes. By maintaining a strong General Fund fund balance, the Village Council is able to adjust to financial changes without the need for drastic reactions to adverse circumstances.

State-shared Revenue

The State's fiscal year 2005/2006 provides for both constitutional and statutory revenue sharing at approximately \$1.1 billion, which is basically the fiscal year 2004/2005 funding level. As with the past several years, revenue-sharing payments on an individual community-by-community basis for fiscal year 2005/2006 will be funded at approximately fiscal year 2004/2005 levels.

The governor's proposed 2006/2007 budget did not include any additional funding for local governments. As a result, it is expected that overall revenue-sharing payments to communities for fiscal year 2006/2007 will remain stagnant at the 2004/2005 level.

State-shared Revenue (Continued)

Even though there is the expectation that revenue sharing will hold constant at prior year funding levels, continued caution should be exercised when budgeting this line item. While it is good news that revenue sharing may be maintained at current levels, sales tax revenue would support an increase to total state-shared revenue payments. However, for fiscal years 2004/2005, 2005/2006, and 2006/2007, the appropriation in the State's budget for revenue-sharing payments is over \$500 million less annually than amounts provided for in law and based on actual sales tax collections. For those three years, revenue-sharing distributions are planned to be approximately \$1.6 billion less than amounts provided by statutory formulas. There appears to be no long-term solution to the State's structural deficit in its General Fund, and as long as this condition exists, revenue sharing remains at risk and a return to past funding levels is not likely in the foreseeable future.

State-shared revenue accounts for approximately 17 percent of the Village's total General Fund revenue. The table below details state-shared revenue for the Village over the past six years broken out by statutory and constitutional portions. In addition, it details the total decrease in state-shared revenue experienced by the Village compared to the State's fiscal year 2001.

State Fiscal Year	Statutory	Constitutional	Total	Decrease from 2001
2001	\$95,080	\$120,828	\$215,908	\$0
2002	\$88,215	\$122,060	\$210,275	\$5,633
2003	\$81,675	\$124,127	\$205,802	\$10,106
2004	\$62,188	\$122,777	\$184,965	\$30,943
2005	\$57,241	\$125,708	\$182,949	\$32,959
2006	\$53,071	\$127,801	\$180,872	\$35,036

If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the Village has approximately \$53,000 at risk in its General Fund budget based on 2006 funding levels. We will continue to update the Village as developments occur. The statutory formula expires in 2007 and requires action by the Legislature.

This report is intended solely for the information and use of the Village Council, management, and others within the Village and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

August 11, 2006